REPORT OF THE AUDIT OF THE MONTGOMERY COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES

May 21, 2002



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EDWARD B. HATCHETT, JR. AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable B. D. Wilson, Jr., Montgomery County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Montgomery County Sheriff's Settlement - 2001 Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Montgomery County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr. Auditor of Public Accounts

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Enclosure



AUDIT EXAMINATION OF THE MONTGOMERY COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES

May 21, 2002

Berger & Ross, PLLC

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MONTGOMERY COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES

May 21, 2002

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2001 Taxes for Montgomery County Sheriff as of May 21, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement are presented fairly in all material respects.

Financial Condition:

Sheriff collected net taxes of \$6,330,906 for the districts for 2001 taxes. Sheriff distributed taxes of \$6,325,177 to the districts for 2001 Taxes. Taxes of \$1,523 are due to the districts from the Sheriff and refunds of \$421 are due to the Sheriff from the taxing districts.

Report Comment:

• The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

The Sheriff's deposits were not fully insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the Montgomery County Sheriff's Settlement - 2001 Taxes as of May 21, 2002. This tax settlement is the responsibility of the Montgomery County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States, and the <u>Audit Guide for Sheriff's Tax Settlements</u> issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Montgomery County Sheriff's taxes charged, credited, and paid as of May 21, 2002, in conformity with the modified cash basis of accounting.

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In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated July 24, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

• The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

Berger & Ross, PLLC

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Audit fieldwork completed - July 24, 2002

MONTGOMERY COUNTY FRED SHORTRIDGE, SHERIFF SHERIFF'S SETTLEMENT - 2001 TAXES

May 21, 2002

			Special				
<u>Charges</u>	Cou	ınty Taxes	ing Districts	Sc	chool Taxes	St	ate Taxes
		-					
Real Estate	\$	492,173	\$ 978,236	\$	3,070,845	\$	947,520
Tangible		95,482	178,431		491,843		336,770
Intangible		-	-		-		95,405
Fire Acreage		189	-		-		-
Additional/Supplemental Bills		504	1,085		2,946		1,095
Limestone, Sand, and Gravel		59	 133		365		112
Total Per Sheriff's Official Receipt	\$	588,407	\$ 1,157,885	\$	3,565,999	\$	1,380,902
Other Taxes and Charges							
Correcting Erroneous Assessments		45	62		283		1473
Penalties & Interest		4,197	8,448		26,013		8,467
Franchise Corporation		34,443	 69,215		183,454		-
Gross Chargeable to Sheriff	\$	627,092	\$ 1,235,610	\$	3,775,749	\$	1,390,842
Credits							
Exonerations	\$	11,111	\$ 18,584	\$	60,036	\$	10,915
Delinquents:							
Real Estate		20,395	41,062		127,254		39,547
Tangible		906	1,815		4,658		4,209
Intangible		-	-		-		1,212
Unpaid Franchise		4	8		18		-
Discounts		8,502	16,812		51,414		20,489
Total Credits	\$	40,918	\$ 78,281	\$	243,380	\$	76,372
Net Tax Yield	\$	586,174	\$ 1,157,329	\$	3,532,369	\$	1,314,470
Less: Commissions*		25,200	 36,789		141,295		56,152
Taxes Due Districts	\$	560,974	\$ 1,120,540	\$	3,391,074	\$	1,258,318
Taxes Paid		560,251	1,118,567		3,388,533		1,257,826
Less: Refunds (Current & Prior Year)		423	 763		2,528		913
			**				
Due Districts or (Refunds Due Sheriff)							
as of Completion of Fieldwork	\$	300	\$ 1,210	\$	13	\$	(421)

^{*}and** See Page 4

The accompanying notes are an integral part of these financial statements.

MONTGOMERY COUNTY FRED SHORTRIDGE, SHERIFF SHERIFF'S SETTLEMENT - 2001 TAXES May 21, 2002 (Continued)

*Commissions:

10% on \$ 10,000 4.25% on \$ 2,519,154 4% on \$ 3,691,992 1% on \$ 369,196

**Special Taxing Districts:

Library District	\$ 263
Health District	49
Extension District	(3)
Ambulance District	426
Fire Protection District	 475
Due Districts or (Refund Due Sheriff)	\$ 1,210

MONTGOMERY COUNTY NOTES TO FINANCIAL STATEMENT

May 21, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution pledged or provided sufficient collateral of \$4,470,784. However, the depository institution's board of directors or loan committee did not approve the pledge or provision of collateral, and the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

MONTGOMERY COUNTY NOTES TO FINANCIAL STATEMENT May 21, 2002 (Continued)

Note 2. Deposits (Continued)

The county's official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 7, 2001.

	Bank Balance
Collateralized with securities held by pledging depository institution in the county official's name	\$ 4,470,784
FDIC	100,000
Uncollateralized and uninsured	484,119
Total	\$ 5,054,903

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2001 through May 1, 2002.

Note 4. Interest Income

The Montgomery County Sheriff earned \$2,746 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Montgomery County Sheriff collected \$33,135 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of May 21, 2002, the Sheriff owes \$2,727 in 10% add-on fees to his fee account.

COMMENT AND RECOMMENDATION

MONTGOMERY COUNTY FRED SHORTRIDGE, SHERIFF COMMENT AND RECOMMENDATION

May 21, 2002

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Require Depository Institutions To Pledge or Provide Sufficient Collateral To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 7, 2001, the Sheriff had bank deposits of \$5,054,903; FDIC insurance of \$100,000; and collateral pledged or provided of \$4,470,784. The pledge or provision of collateral was insufficient and was not approved by the board of directors of the depository institution or its loan committee, and there was not written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

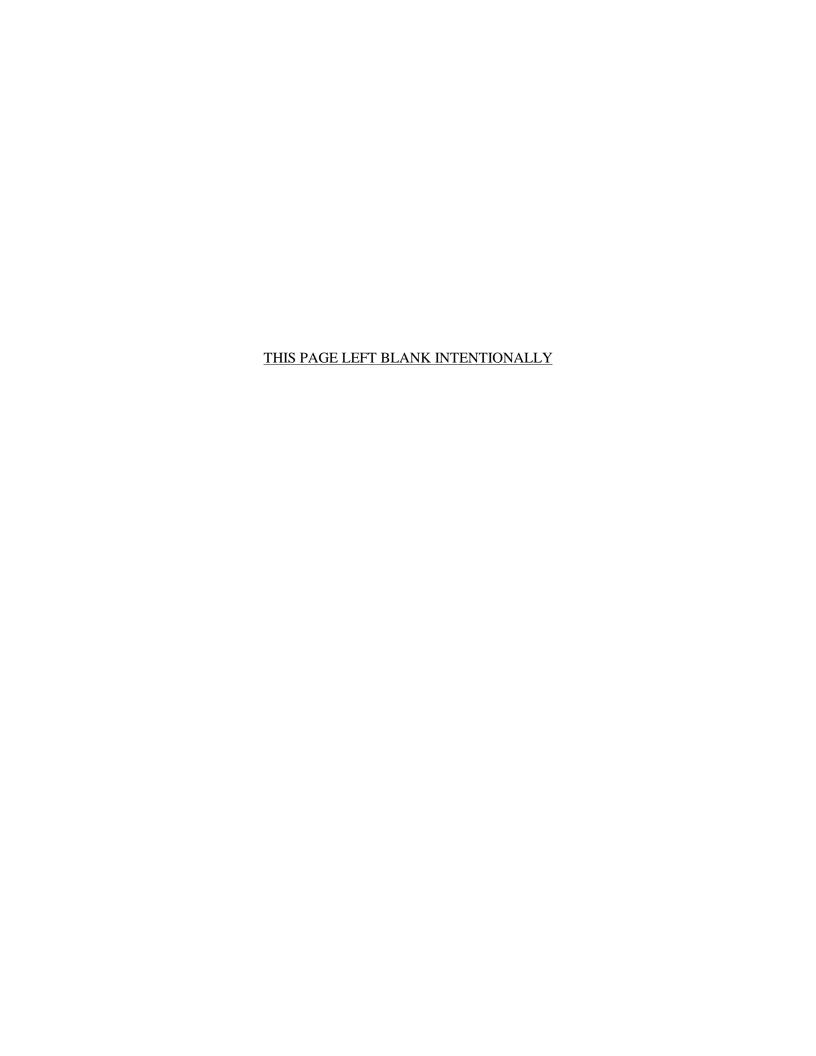
Sheriff's Response:

Yes, we are also having them sign a Collateral Security Agreement.

PRIOR YEAR:

• The Sheriff Should Require Depository To Pledge Or Provide Sufficient Collateral To Protect Deposits

This was not corrected and is reported again.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Montgomery County Sheriff's Settlement - 2001 Taxes as of May 21, 2002, and have issued our report thereon dated July 24, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montgomery County Sheriff's Settlement -2001 Taxes as of May 21, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under <u>Government Auditing Standards</u> which is described in the accompanying comment and recommendation.

 The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards (Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

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Berger & Ross, PLLC

Audit fieldwork completed - July 24, 2002